

HOUSE BILL REPORT

HB 1273

As Reported by House Committee On:
Economic Development, Agriculture & Trade

Title: An act relating to downtown and neighborhood commercial district revitalization.

Brief Description: Promoting economic revitalization.

Sponsors: Representatives Grant, Walsh, Holmquist, Linville, Appleton, Kessler and P. Sullivan.

Brief History:

Committee Activity:

Economic Development, Agriculture & Trade: 2/2/05, 2/28/05 [DPS].

Brief Summary of Substitute Bill

- Creates the Washington Main Street Program in the Department of Community, Trade and Economic Development (DCTED) to provide technical assistance to businesses, property owners, organizations, and local governments undertaking a comprehensive downtown or neighborhood commercialization district revitalization initiative and management strategy as well as financial assistance to local governments or organizations for initial program start-up.
- Creates a business and occupation (B&O) tax credit for the value of a private contribution designed to assist in the development and operation of a downtown or neighborhood commercial district revitalization program or the Washington Main Street Program.

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, AGRICULTURE & TRADE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 17 members: Representatives Linville, Chair; Pettigrew, Vice Chair; Blake, Buri, Chase, Clibborn, Dunn, Grant, Haler, Kenney, Kilmer, McCoy, Morrell, Quall, Strow, P. Sullivan and Wallace.

Minority Report: Do not pass. Signed by 6 members: Representatives Kristiansen, Ranking Minority Member; Skinner, Assistant Ranking Minority Member; Condotta, Holmquist, Kretz and Newhouse.

Staff: Tracey Taylor (786-7196).

Background:

Many communities may have traditional downtown business districts or neighborhood commercial districts that are in need of revitalization. In 2002, the Legislature passed SHB 2437 which provided some assistance to communities looking to revitalize their downtown or neighborhood commercial districts.

Downtown or neighborhood commercial districts may be eligible to collect local retail sales and use tax increment revenue, alone or with other public and private funds, to pay for downtown or neighborhood commercial revitalization costs or to pay into bond redemption funds established to pay the principal and interest on general obligation or revenue bonds issued to finance a revitalization project. The amount of the local retail sales and use tax increment revenue is the amount of the local sales and use tax collected each year within a downtown or neighborhood commercial district in excess of the amount collected in the same year during the preceding year. In order to use the local retail sales and use tax increment revenue for community revitalization projects, the legislative authority of the city or town must authorize the use of the tax increment, and designate the boundaries of the downtown or neighborhood commercial district.

A downtown or neighborhood commercial district must either be designated as a Main Street area by the DCTED; or be designated by the legislative authority of a city or town with a population over one hundred thousand and be an area typically limited to the pedestrian core, or central commercial district and compact business districts that serve specific neighborhoods within the city or town.

The types of community revitalization projects that may be financed through the local retail sales and use tax increment include: health and safety improvements authorized to be publicly financed; publicly owned or leased facilities within the jurisdiction which the sponsor has authority to provide; expenditures for environmental analysis, professional management, planning and promotion within the commercial district; providing maintenance and security for the common or public areas in the commercial district; certain historic preservation activities; and project design and planning, land acquisition, site preparation and other costs.

The DCTED Downtown Revitalization Program (DRP) assists communities throughout the state revitalize the economy, appearance and image of their traditional business districts through training, technical assistance and the organization of local resources. Utilizing the Main Street methodology developed by the National Trust for Historic Preservation, the DRP emphasizes four critical areas of revitalization: organization, promotion, design and economic restructuring. Since July 1, 2003, 10 Washington communities have been certified as Main Street communities.

Business and Occupation Tax (B&O)

Washington's B&O tax is the second largest tax source for the state. In Fiscal Year 2003, B&O tax collection totaled \$1.923 billion which represented approximately 17 percent of state revenue sources within the State General Fund. Almost all businesses located or doing

business in the state of Washington are subject to the state B&O tax, including corporations, partnerships, sole proprietors, and nonprofit organizations.

Washington's B&O tax is calculated on gross income from business activities in the state. There are no deductions from the B&O tax for labor, materials, taxes or other costs of doing business. However, some businesses may qualify for certain exemptions, deductions or credits. An exempted activity is not subject to the B&O tax and is not reported on the Combined Excise Tax Return (CETR). Exempted activities include raising and selling plantation Christmas trees at wholesale; sales for fund-raising of certain nonprofit organizations; international banking facilities; and growing, raising or producing agricultural products. Unlike exemptions, deductions must first be reported on a business' CETR as part of the business' gross income, then taken as a deduction. Allowable deductions include bad debts; freight and delivery costs incurred by a Washington manufacturer for out-of-state shipments; and sales made in Washington by an out-of-state seller without activities in Washington that establish, maintain, or facilitate a market for its products or services. Credits are amounts that have been paid to the Department of Revenue (DOR) which are either not due or are granted by the Legislature for a specific purpose. Credits are subtracted from the B&O tax due on the CETR and include the multiple activities tax credit; the high technology B&O tax credit, and the small business B&O tax credit.

Business and occupation tax rates and classifications vary according to the type of business activity. The major B&O tax classifications are retailing, wholesaling, manufacturing and service and other activities.

Summary of Substitute Bill:

The Legislature intends to create a program to assist business and property owners, local governments and downtown and neighborhood commercial district organizations to implement a downtown or neighborhood commercial district's economic revitalization.

Washington Main Street Program

The Washington Main Street program is created in the DCTED. The DCTED will provide technical assistance to property owners, businesses, organizations and local governments undertaking a comprehensive downtown or neighborhood commercial district revitalization initiative and management strategy. Technical assistance may include site evaluations and assessments, training for local programs and staff, local program design assistance and evaluation and continued local program on-site assistance. Financial assistance may be provided, to the extent funds are made available, to local governments or organizations to assist in program start-up costs, specialized training, specific project feasibility studies, market studies, and design assistance. Priority for technical and financial assistance shall be given to downtown or neighborhood revitalization programs located in a rural county.

The DCTED will develop the criteria for selecting the recipients of assistance and provide the designation of local projects. In developing the criteria, the DCTED must consider: the degree of interest and commitment to comprehensive downtown or neighborhood commercial

district revitalization, and where applicable, historic preservation by both the public and private sectors; the evidence of potential private sector investment in the downtown or neighborhood commercial district; where applicable, the downtown or neighborhood commercial district with sufficient historic fabric to become a foundation for enhanced community image; the capacity of the organization to undertake a comprehensive program and the financial commitment to implement a long-term downtown or neighborhood commercial district revitalization program that includes a commitment to employ a professional program manager and maintain a sufficient operating budget; the DCTED's existing downtown revitalization program's tier system; and the national main street center's criteria for designating official main street cities.

The DCTED will designate local downtown or neighborhood commercial district revitalization programs and official local main street programs. The programs shall be limited to three categories of designation, including main street level. The boundaries will typically be defined using the pedestrian core of a traditional commercial district.

In addition, the DCTED will operate the Washington Main Street Program in consultation with the advisory committee.

Washington Main Street Advisory Committee

The Washington Main Street Advisory Committee is created within DCTED. The members of the committee are appointed by the Director of DCTED and must consist of: the Director or the Director's designee, who shall serve as chair; two representatives from local government; five representatives from existing local main street programs or downtown and neighborhood commercial district programs, including a combination of staff, property owners and business owners; and one representative from the Washington trust for historic preservation.

Washington Main Street Plan

In consultation with the Committee, the DCTED must develop a plan that must describe the objectives and strategies of the Washington Main Street Program. The plan must also describe how the Washington Main Street Program will be coordinated with existing federal, state, local and private sector business development and historic preservation efforts; the means by which private investment will be solicited and employed; the methods for selecting and providing assistance to participating local programs; and the means to solicit private contributions for state and local operations of the Washington Main Street program.

Washington Main Street Trust Fund

The Washington Main Street plan is created in the state treasury. The trust fund shall include all receipts from private contributions, federal funds, legislative appropriations, and fees for services, if levied. Expenditures from the account may only be used for the Washington Main Street program.

B&O Tax Credit

A business and occupation (B&O) tax credit is created for private contributions designed to assist the development and operation of a downtown or neighborhood commercial district revitalization project. The B&O tax credit is available for 75 percent of the value of a direct

contribution to the program or 50 percent of the value of a contribution to the DCTED for distribution as financial or technical assistance. In order to receive a credit, an application must be submitted to the DOR. Credits will be awarded on a first-come basis after September 1, 2005.

Total credits cannot exceed \$100,000 per calendar year for an individual program or \$250,000 per calendar year for a business. The total amount of credits per year statewide is capped at \$2 million per calendar year.

The credit does not apply to a program unless the boundaries of the program have been identified and approved by the DCTED. The boundaries of a local or neighborhood commercial district revitalization program are typically defined using the pedestrian core of a traditional commercial district.

Substitute Bill Compared to Original Bill:

The public utilities tax is added to the taxes available for the credit. In addition, technical changes are made to the tax credit program, including: creating a new chapter for the B&O credit statutes; not accepting applications until after September 1, 2005; creating an application process for the credit; directing the DCTED to work with the DOR; and safeguarding against the reusing of credits. Finally, the substitute directs the DCTED, in developing criteria for the allocation of technical and financial assistance, to assign priority to programs located in a rural county, as defined in statute.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: The Main Street Program is a brilliant concept used across the nation in over 1,200 cities to further economic development by identifying what is special about a place and by preserving its character and generating economic activity. Currently, there is an outstanding and comprehensive program available through the DCTED. This bill will assure that the state Main Street Program will remain a function of the DCTED and will be able to serve even more communities.

One of the strengths of this proposal is the ability to forge successful public-private partnerships. The B&O tax credit will be a valuable resource and an incentive for companies and industries to leverage additional private investment in the revitalization of downtowns and neighborhoods.

This bill will assist the current DRP program and provide an incredible opportunity for communities faced with revitalization. Moreover, it provides protections for the state while generating new revenue opportunities for state and local government.

(In support with concerns) The bill does not cover contributions to a local government community revitalization organization, such as the one the City of Tacoma has.

Testimony Against: None.

Persons Testifying: (In support) Representative Grant, prime sponsor; Mari Mullen, Port Townsend Main Street Program; Claude Oliver, Benton County Commissioner; and Timothy Dalton, Historic Downtown Kennewick Partnership.

(In support with concerns) Randy Lewis, City of Tacoma; and Jim Justin, Association of Washington Cities.

Persons Signed In To Testify But Not Testifying: None.